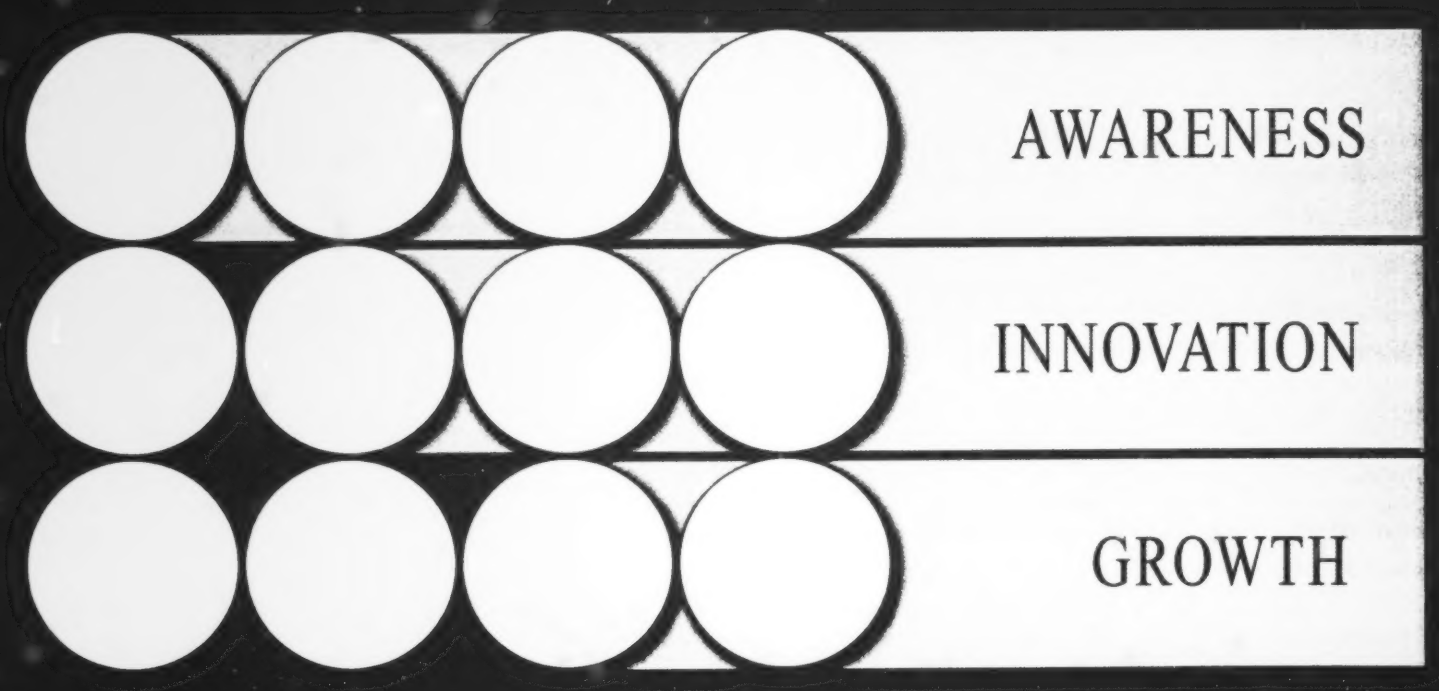
2002

Annual Report



Newfoundland Liquor Corporation

103-05457/

Newfoundland Liquor Corporation

Report for Fiscal 2001-2002

Mission Statement

To provide excellent management of the importation, distribution and sale of quality beverage alcohol. The Corporation will maximize revenues within a framework of social responsibility. It will focus on customers, build partnerships and provide a quality workplace for employees.

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Board of Directors

Jamie M. Smith, *Chair*

Jamie M. Smith, Q.C. is the managing partner with the Smith Coffey law firm in St. John's. Mr. Smith is a founding member and Director of the Community Foundation of Newfoundland and Labrador, a Director with the Community Services of Newfoundland and Labrador and a member of the Canadian Bar Association. He serves on a number of provincial and federal committees and is a past Bencher and Executive Committee Member of the Law Society of Newfoundland and past Chair of the Drivers' Licence Suspension Review Board for the province.

Gerald G. Glavine, *President and CEO*

Gerald G. Glavine has been president and C.E.O. of NLC since 2000. Prior to assuming this position, Mr. Glavine was the Chief of Staff in the Office of the Premier in Newfoundland and Labrador. He has also spent more than 25 years in teaching and administration in what is now called the Avalon East School Board. Mr. Glavine has served on international boards and participated in numerous volunteer efforts over the years.

Margaret Ayad, *Director*

Margaret Ayad owns Baccalieu Consulting, a company dedicated to using the Internet to promote Newfoundland destinations, products and services. Prior to establishing this business, Ms. Ayad taught at the senior high school and community college levels and was an instructor at Memorial University of Newfoundland. Ms. Ayad is a past vice-Chairperson of the Baccalieu Trail Board of Trade and is currently active in a number of organizations.

Fred Harding, *Director*

Frederick R. Harding is a Corner Brook business man. He is the President of FreMar Ltd. and the owner/operator of Skates & Blades and Best Images.

Cecil Lake, *Director*

Cecil Lake is the president and operating officer of his family business Lake & Lake Ltd. - a grocery and hardware store operating in Fortune, Newfoundland for 89 years. Mr. Lake has worked in the business for more than 36 years and volunteers with a number of community-based organizations.

Michelle Batterson, *Director*

Michelle Batterson has gained extensive experience in working with boards throughout her career in recreation, tourism and business. She brings experience in marketing, planning and administration to NLC's Board that she has gained over the past two decades. Ms. Batterson is a graduate of both a business and an entrepreneurial program and is the owner/operator of Moonlite Reflectives, a small business dedicated to personal safety. She is currently the Executive Director of the Mount Pearl Chamber of Commerce and is a long-time volunteer in her community.

Meta Kennedy, *Director*

Meta Kennedy has worked for a number of years in the area of health and community services. She began her career in the field of social work and later became a hospital administrator. Community positions she has held over the years include the honorable title of mayor - a position she held for the community of Norris Point.

Letter to Minister of Finance

NEWFOUNDLAND LIQUOR CORPORATION

Honourable Joan Marie Aylward
Minister of Finance
Government of Newfoundland and Labrador
St. John's, NL
Canada, A1B 4J6

Dear Ms. Aylward:

It is my pleasure to submit the 29th annual report of the Newfoundland Liquor Corporation (NLC). The report covers the fiscal year ending March 31, 2002 and summarizes the Corporation's activities during this reporting period.

Sincerely yours,

J. Am. Sh

Jamie M. Smith
Chair

Message from the President and C.E.O.

NEWFOUNDLAND LIQUOR CORPORATION

2001/02 has been a landmark year for the Newfoundland Liquor Corporation!

Throughout this fiscal year, our corporate growth was guided by the words "Moving Ahead." All areas of the Corporation focused on these words and "Moving Ahead" became the theme for the year and the focus of our annual Managers' and Assistant Managers' Seminars. These words reflected NLC's commitment to being aware of consumer needs and expectations and the Corporation's activities in acting upon this awareness and developing NLC as a dominant retailer, manufacturer and exporter. It is with this in mind that the theme of this year's annual report **"Awareness, Innovation, Growth"** was developed. This theme speaks of our ambition to improve our corporation through a progression of sound ideas and thoughtful execution. Our **"Awareness"** is both social and fiscal as we strive to meet and surpass consumer expectations. In being **"Innovative"** we are determined to be creative in product development, marketing, social responsibility programs and customer convenience. **"Growth"** is the result of this "Awareness" and "Innovation".

I am pleased to report that NLC realized a net profit of more than $93 million and the financial dividend we provided to the Government of Newfoundland and Labrador was slightly up this year to $91 million from $90 million. Growth occurred in our retail network with the opening of new stores (one corporate and four agency locations) and production was up in our bottling plant - production increased to 88,000 cases of spirits this year, an increase of about 5,000 cases over our last fiscal period.

Overall, NLC demonstrated a heightened awareness of evolving customer expectations and demands, internal business practices and community attitudes and activities. To guide our corporate growth all NLC departments engaged in an extensive business planning exercise that further developed and defined our corporate goals and strategies. The result of this planning exercise was the establishment of key strategies for each department, accountability time frames and

Message from the President and C.E.O.

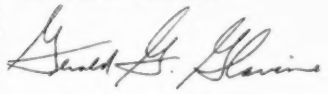
an increased understanding (and appreciation) of the need for departments to work together to plan for the future.

The Corporation continues to move forward from being a supply-based organization to a socially responsible, customer-oriented retailer. In doing so, NLC is working hard to improve operating efficiencies and to advance technological capabilities. Since last fiscal, NLC has made significant strides toward introducing a point of sale (POS) system. POS is where knowledge management meets customer service and with the technological developments made this year, we are confident that our customers will benefit from POS in 2002/03.

NLC's role as a socially responsible retailer continues to grow and develop. Through our retail network and with the dedication of our employees, NLC raised in excess of $25,000 for worthy causes in our province. The year was also marked by many firsts - in June, we saw the introduction of $1.65 as the minimum price per standard serving for all beers, wines, spirits and refreshment beverages sold in licensed establishments; in September, NLC participated in the first ever national social responsibility program - Minor Problem, Minors With a Problem; and, in March, the Corporation was pleased to offer a one-day server training program to bar owners and servers. These "firsts" have been positively received and NLC's commitment to Newfoundland and Labrador and the communities in which we operate is continuing to grow with new programs planned for the future.

I invite you to read our annual report and become aware of the innovation and growth of the modernized NLC.

Gerald G. Glavine



President and C.E.O.

Newfoundland Liquor Corporation Annual Report 2001/02

Retail Network

NLC is aware that consumers expect more today than ever before, from increased service, to new products and to an enhanced shopping experience. We've been listening to our customers and acting. As a result, 2002 saw the opening of new stores and the re-opening of a newly refurbished existing location. NLC's new Stephenville store officially opened in October 2001 and the renovated Elizabeth Avenue store held its grand re-opening in November - just in time for the holiday season. Renovations to NLC stores are continuing as we work towards our goal of modernizing all of our Corporation stores. Renovated stores provide customers with enlarged retail areas, modernized beverage displays and a larger product selection.

New agency stores opened this year in the communities of Norman's Cove, Gaultois, King's Cove and Battle Harbour with the latter being a seasonal operation. The expansion to the Agency Store Program has resulted in remarkable growth from 94 agency outlets in 2000/2001 to 98 in 2001/2002 and we expect further expansion in 2002/03. Exploratory analysis is currently underway with potential sites being considered. In addition to our expansion plans for agency outlets, preliminary work was begun this year on two additional sites in the St. John's/Mt. Pearl area for NLC operated stores. In keeping with our retail growth objectives, NLC, through its Store Operations department, co-ordinated renovations in three agency outlets - Swift Current, Heatherton and Deer Lake.

Within retail stores the spirit of giving is really taking off. That is to say that customer response to NLC Gift Stores in St. John's is extremely positive, so much so that the Corporation decided to pilot a similar operation in Corner Brook. Again, early consumer response and sales information seem to support this decision.

In the spirit of innovation, we looked to capitalize on unique business opportunities and offer new products in our retail stores. On a pilot basis, we have executed lottery ticket sales in four outlets throughout the province. This project will continue into the next fiscal year to give us a clear indication of customer response.

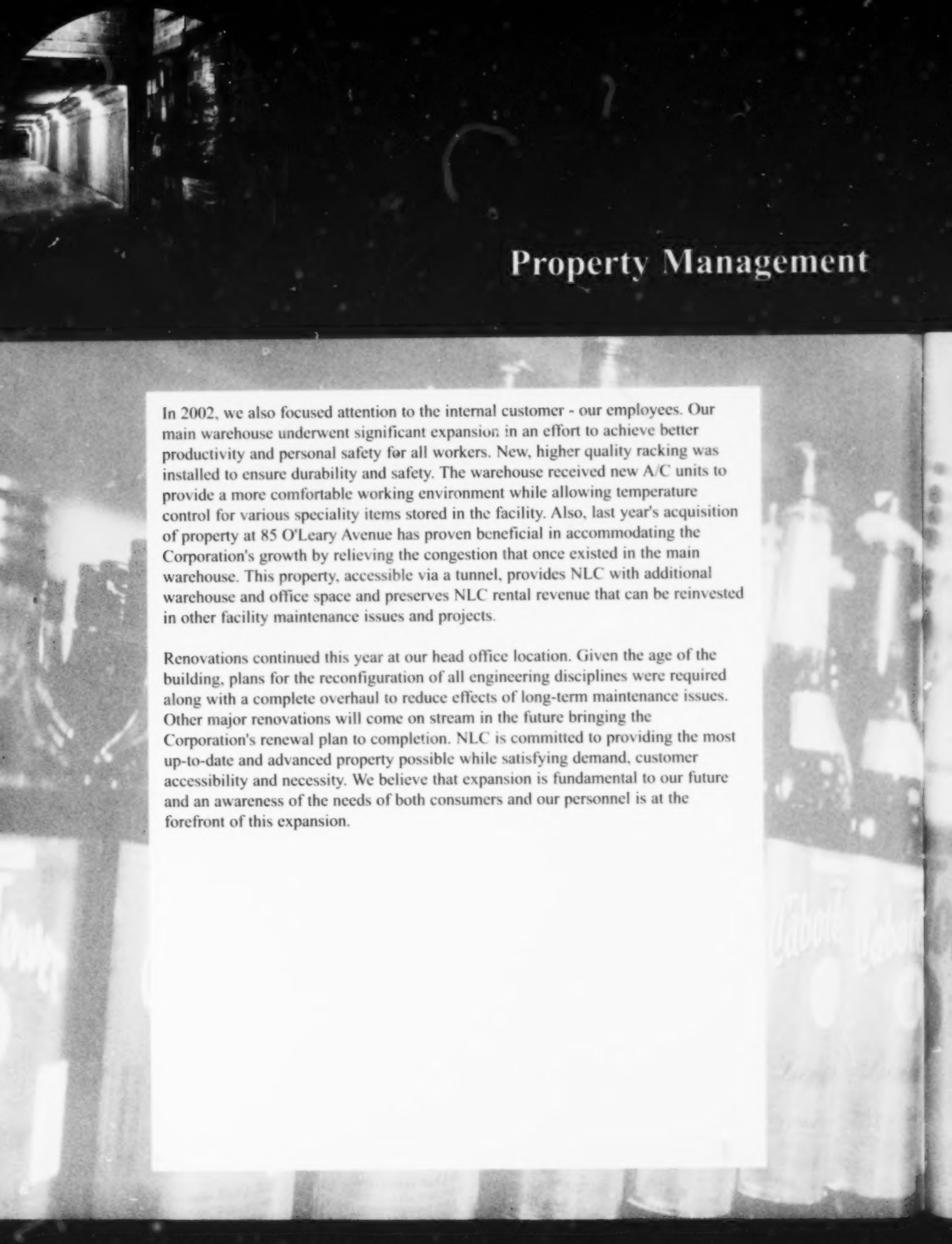
Knowing the consumer and our community, NLC can creatively and effectively accommodate customers' needs. Good listening can grow a healthy bottom line.

Property Management

Property Management

Look at us now! During the past year, NLC has developed many projects within our retail network and head office location. Customer oriented initiatives have led the way with the opening of the new NLC store in Stephenville and with the renovations to NLC's busy Elizabeth Avenue store. Customer needs were identified and accommodated in both locations. For example, walk-in beverage coolers were installed in these stores to suit the "last minute shopper" by providing chilled products on demand. This has proven to be a first-rate initiative, modernizing and advancing our image.

Widespread image enhancement came to fruition with several retail stores receiving makeovers in 2002. Plans for our Gander store's renovations were initiated and the Property department worked with Store Operations in considering sites for two new store locations (Pearlgate Plaza, Mount Pearl and Stavanger Drive, St. John's). Requests for Proposals were issued and space was secured in both locations with the new stores being attached to supermarkets in each of these areas --- this will allow direct access to and from the adjacent grocery store. Walk-in beverage coolers will also be featured in each of these locales. Expansion of the walk-in beverage cooler concept is in the plans for our Topsail Road and Corner Brook Plaza locations as well. As a function of our persistent attention to detail, each store's layout, colour scheme and overall aesthetic feel is suited to each location's surrounding area.



Property Management

In 2002, we also focused attention to the internal customer - our employees. Our main warehouse underwent significant expansion in an effort to achieve better productivity and personal safety for all workers. New, higher quality racking was installed to ensure durability and safety. The warehouse received new A/C units to provide a more comfortable working environment while allowing temperature control for various speciality items stored in the facility. Also, last year's acquisition of property at 85 O'Leary Avenue has proven beneficial in accommodating the Corporation's growth by relieving the congestion that once existed in the main warehouse. This property, accessible via a tunnel, provides NLC with additional warehouse and office space and preserves NLC rental revenue that can be reinvested in other facility maintenance issues and projects.

Renovations continued this year at our head office location. Given the age of the building, plans for the reconfiguration of all engineering disciplines were required along with a complete overhaul to reduce effects of long-term maintenance issues. Other major renovations will come on stream in the future bringing the Corporation's renewal plan to completion. NLC is committed to providing the most up-to-date and advanced property possible while satisfying demand, customer accessibility and necessity. We believe that expansion is fundamental to our future and an awareness of the needs of both consumers and our personnel is at the forefront of this expansion.

Marketing Initiatives

Marketing Initiatives

Throughout 2001/02 NLC was guided by its corporate theme of "Moving Ahead... moving ahead NLC 2001" which had, at its base, a desire to become a "customer-focused" retailer.

Customer expectations, both external and internal, were a key component of all initiatives undertaken within the Marketing Group with customer satisfaction being the departmental objective. All activities were reviewed to determine if customer expectations were being met and, if possible, changes were implemented.

The creation, design and implementation of effective in-store promotions continued with programs targeted to reflect market trends. The planning for these programs was enhanced through the use of technology resulting in, most importantly, the provision of sales/profitability information to the Retail Group and also the implementation of more efficient administrative processes to further streamline the planning process - an initiative begun in 2000-01 that continues.

A glossy product flyer entitled "Christmas Spirits" illustrating spirit gift items for the holiday season was a new marketing initiative for this fiscal year. This flyer, distributed via the retail network throughout the province, achieved pre-determined sales objectives and positioned NLC as an alternative retail outlet for the Christmas sales season.

It is an on-going activity to ensure the selection of products in the marketplace satisfies our dual objective of meeting customer expectations and optimizing profits. During annual internal retail meetings, the Marketing Group outlined the product selection process with managers and assistant managers -- this process proved invaluable and resulted in a greater understanding at the retail level of the listing/de-listing process for products.

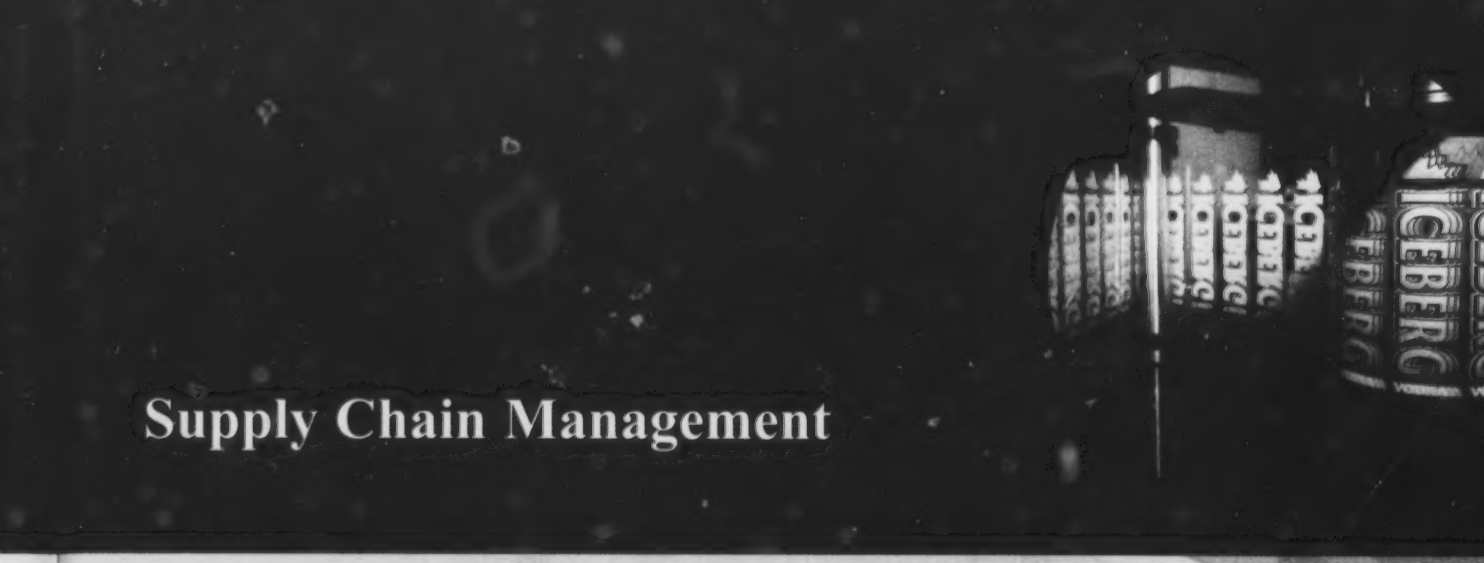
The Marketing Group, in conjunction with Store Operations and Property, continued with the design process for the scheduled renovations of retail stores. The objective of this process is to design stores to reflect the image of the Corporation and to have the required infrastructure in place to ensure the profitable placement of our products for customer convenience.

Marketing Initiatives

The sixth annual Wine Fest was held this year and the event was again a sold-out success. This three-day consumer exhibition featuring wines from around the world was expanded to include a Wine Auction with proceeds in support of the Newfoundland Youth Choir. Other activities of Wine Fest included consumer-sampling sessions, supplier educational seminars, a winemaker's luncheon featuring Spanish products from Codorniu, and a Gala Dinner. Positive growth for this event continues with the demand for tickets exceeding supply and sales in the Wine Fest retail store surpassing objectives. This growth also enabled the Corporation to increase its donation to the Newfoundland Symphony Orchestra with $10,000 provided in 2001. In response to customer demand, planning for a similar event in the Corner Brook area is underway for the 2002/03 fiscal year.

Marketing initiatives, as during 2000-01, for locally manufactured products continued to focus on key brands: Screech, Old Sam, Cabot Tower and Big Dipper Gold. Programs were implemented provincially and participation in the Annual Exposition of the Newfoundland Manufacturing Association continued.

Innovative thinking will lead the NLC outside the country. Planning for export sales to the North Eastern United States continued this year with a market research project scheduled for completion early in 2002.



Supply Chain Management

Supply Chain Management

The Corporation anticipates significant future growth that will increase demands on the supply chain. We are aware of the necessity to find new and innovative ways to move and store our products. The year 2001/02 has seen the beginning of a supply chain evaluation including a complete systems and facilities review. This will result in significant advancements in future years. We will take advantage of our newly extended warehouse facilities and will partner with external companies to make technological advances in the areas of product movement and storage.

The current central warehouse recognized a thru-put again this year of 1.26 million cases. Combining anticipated growth with the need for more frequent deliveries our handling facilities are preparing to respond.

As a producer of local products, we have initiated an awareness campaign to let our community know that NLC produces premium quality products capable of competing with others in their category. We have distributed brochures promoting the exceptional quality of our products, participated in local trade shows and are planning a media campaign for the 2002/03 fiscal year to generate interest in tours of our bottling facility to further educate our community about the local products we produce.

Our blending and bottling plant has witnessed benefits through the addition of new equipment, upgrades of older equipment and modification and redevelopment of processes. Blending processed 88,000 cases of spirits this year up from 83,000 cases processed in the year previous. Blending has begun to move forward in building a stronger, competitive and more profitable manufacturing facility within NLC.

The pursuit of greater efficiency in product production is on-going with innovation paying dividends. The use of a dual head pressure sensitive labeling machine has been implemented with great success. It significantly improves start-up and shut down times and reduces the number of label placement rejects that occur during start-up of paper and glue labeling. Blending capacity has increased through the addition of three new agitators and water hook ups. Tanks previously used as holding tanks are now used to complete blends. The shut down of satellite warehousing and the use of the O'Leary Avenue property has created great time

Supply Chain Management

savings and has reduced transportation and leasehold costs. As a team, we are planning and laying the foundations for a tremendous and profitable future. We are continuing to maintain a healthy and positive workplace where employees enjoy coming to work knowing they are positive contributors to what we accomplish every day.

Growth requires that we prepare employees to properly adapt to change. We are proud to say that the staff has successfully completed training in areas of equipment operation, software manipulation and health and safety. As the NLC evolves, it is vital that we share the common goals of creating superior products and building a rewarding work environment.

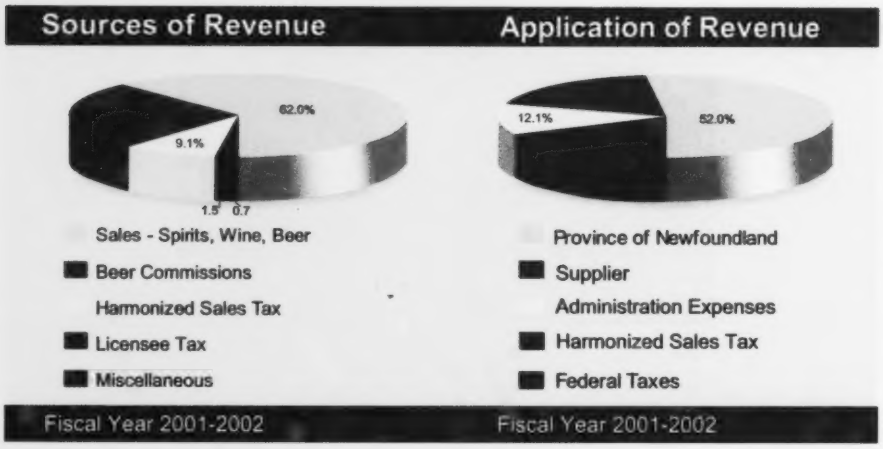
Auditing Practices

Auditing Practices

Awareness and innovation of internal policies is vital to the growth of a functional, profitable workplace. During 2001/02, NLC's internal auditors examined a number of the Corporation's systems for compliance to existing policies and procedures and consequently made recommendations for improvement. Audit procedures were conducted on 17 NLC stores and 37 agency stores according to a plan based on risk assessment and priority. Audits were also conducted on three local breweries to verify production reports and related NLC commissions.

Financial analysis and credit verifications were completed on the pertinent applications for all the agency-store locations for which competitions were held during the year. Support was provided for agency transfers and timely audit visits were scheduled for newly established agencies.

We recognize that effective loss prevention and auditing procedures are essential to both profitability and accountability. The on-going efforts of store employees, combined with well-defined control procedures and modern auditing techniques, resulted in another successful year for loss prevention. 2002 saw a reduction of store losses by 50 percent - this represented only .04 percent of total sales.



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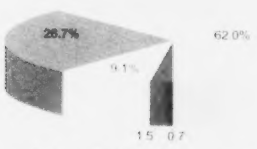
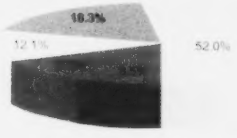
Sources of Revenue



Sales - Spirits, Wine, Beer
Beer Commissions
Harmonized Sales Tax
Licensee Tax
Miscellaneous

Fiscal Year 2001-2002

Application of Revenue



Province of Newfoundland
Supplier
Administration Expenses
Harmonized Sales Tax
Federal Taxes

Fiscal Year 2001-2002

Information Technology and Point of Sale

Information Technology and Point of Sale

NLC is poised for success and our IT Department is dedicated to using the latest technological innovations to ever improve its support of the corporate strategic direction.

In partnership with Electronic Data Systems (EDS) Canada, James D. Armstrong (JDA) Software and Connections Canada Incorporated (CCI), NLC is dedicated to finalizing our POS project and provide up-to-date inventory and sales information from our corporate stores. Extensive business process analysis sessions have given NLC an opportunity to evaluate and improve current business practices. As a result, significant changes will be implemented in the areas of product hierarchy, the accounting calendar, product pricing and banking services. Once finalized, it is anticipated that POS will greatly improve the service we provide to our customers and business partners.

Information Technology and Point of Sale

NLC's IBM AS/400 mainframe has been upgraded to a new Model 820 processor with increased capacity to accommodate the requirements of the POS and Supply Chain initiatives. The IT department began development of the required programs to interface data from the new system to the corporate legacy warehouse inventory and financial applications. This project also saw the implementation of an in-house Microsoft Exchange E-mail Server and the rollout of Web Access e-mail services to the Corporation.

Overall, the POS Project has seen the design and development of a number of new applications including:Windows Distributed Store System (Win/DSS), Merchandise Management System (MMS), Accounts Receivable and Retail Ideas - a new Sales and Inventory analytical tool. Preparation for the installation of infrastructure upgrades required to support the POS Project began during the fiscal year. Upgrades will include store servers, new registers for sales lanes, Virtual Private Network (VPN) servers, Debit/Credit Banking Switch and a corporate firewall.

In preparation for POS, increased training opportunities were offered to head office, store and IT staff in Windows 98, Microsoft Office, incl. Microsoft Outlook for e-mail, Win/DSS and MMS, Retail Ideas, Microsoft Exchange, Windows 2000 server, File Synchronization and First Line Support (FLS).

As we strive to stay current with the ever-changing technological advances in our industry, we face an increasing need for IT expertise. Consequently, NLC is pleased to report that our IT department has grown to include nine employees. This is expected to reach 17 employees by the end of the next fiscal year.

Human Resources

Meaningful growth is not possible without the dedication and skill of our people. Making sure our employees are protected and encouraged to prosper within the NLC family is our number one priority.

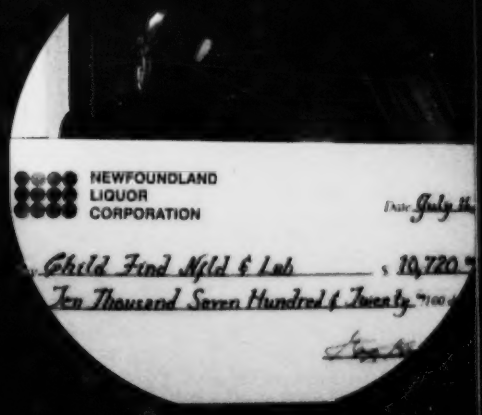
Significant changes to health and safety and Workers' Compensation legislation were announced during the year. These changes required increased participation and accountability by employers, workers and unions for the prevention of accidents, as well as the early and safe return to work of injured workers. Our education in this area is on-going and we are working towards full compliance with these legislative provisions as they become effective.

The Human Resources Department was active in the Point of Sale (POS) Project and, in particular, played a lead role in the Change Team facilitating the change process through both formal and informal communication with employees. During the year, the Team met to discuss issues and attended briefing sessions concerning the project. The Team updated staff through a newsletter and it was decided that the frequency of these communications should increase in the new fiscal year with the implementation of POS fast approaching.

NLC and NAPE signed a new, three-year collective agreement. This agreement was reached after a brief strike in early April that affected most of the provincial public sector. The labour relations environment was quite positive after the work stoppage with employees generally satisfied with the salary increase and benefit improvements that were negotiated.

External recruitment activity to cover peak seasonal requirements and call-in staff for the retail stores, warehouse and bottling plant continued to be quite significant during the year. Job competition activity for permanent positions was also quite steady with the vast majority of these vacancies being filled through internal competitions.

Social Responsibility



Social Responsibility

The NLC, as a retailer, manufacturer and distributor of beverage alcohol, recognizes the need to promote the responsible use of alcohol to everyone in Newfoundland and Labrador. We try to be vigilant and continuously look to improve policies and practices to keep our community safe.

Throughout the year, NLC worked to raise public and staff awareness relating to the responsible use of beverage alcohol and the promotion of public safety. Our broad based social responsibility program involved partnerships with various community groups to deliver public education programs and to encourage responsible drinking practices. The Corporation also organized advertising campaigns featuring responsible drinking messages and held numerous in-store fundraising programs to support worthy charities and community based activities. NLC's advertising initiatives regarding "Don't Drink and Drive" applied to all modes of transportation including: boats, snowmobiles, motorcycles, ATV's, etc.

This year, NLC raised more than $10,000 for Child Find Newfoundland and Labrador and supported the Janeway Children's Telethon for the first (but definitely not the last) time. NLC also raised funds for the Newfoundland Diabetes Association with the Loonie Gets a Lot Campaign and welcomed the Salvation Army Red Kettle Campaign into many of our retail stores during the busy Christmas holiday season. In-store fundraising activities this year also included Mothers' Against Drunk Driving's (MADD) Red Ribbon Campaign, the Community Food Sharing Association and many other worthy causes. In total, the Corporation raised and presented more than $25,000 as a result of fundraising activities.

Again this year, NLC focused on increasing students' awareness of alcohol related issues with the "Wise-up" and the "Drinking and Driving Awareness" programs. Wise-up, a program offered to grade seven students, challenged young people throughout the province to learn about alcohol and its effects while having fun in an inter-school contest that tested their knowledge on the subject. The Drinking and Driving Awareness Program (also known as the Brown Bag Program) was offered to grades four and five students. During this program, students drew their impressions of the effects of drinking and driving on NLC paper bags. Schools throughout the province participated and submitted their students' drawings. After the winners were

Social Responsibility

selected, the bags with their drawings were then distributed to NLC stores throughout the province for retail use.

Another important initiative this year was the introduction of minimum pricing for alcoholic beverages sold in licensed establishments in the province. The minimum price of $1.65 per standard serving applies to all beers, wines, spirits and refreshment beverages.

The issues of minors attempting to purchase alcohol and adults purchasing alcohol for minors are serious ones that NLC has addressed over the years through "No Sales to Minors" campaigns. This year, NLC participated in the first-ever national public awareness campaign co-ordinated by the Canadian Association of Liquor Jurisdictions (CALJ). This program, "Minor Problem, Minors with a Problem", was delivered across the country with in-store and in-school posters and radio, newspaper and billboard advertising.

NLC will continue to promote the safe use of beverage alcohol with new programs in the coming year and the Corporation will be moving forward with new fundraising activities.

Enforcement

Enforcement

In March 2002, NLC responded to questions regarding the rights and civil liabilities of bar owners and servers in the province by offering a one-day interactive seminar. The seminar, held in St. John's, Gander and Corner Brook, included presentations from the RCMP, RNC, Hospitality Newfoundland and Labrador and NLC directors. Across the province, approximately 900 participants registered to attend this free information session. Those in attendance heard speakers present tips on how laws concerning alcohol affect them and participants had the opportunity to ask questions and raise concerns. This program received much favourable feedback and plans are being made to hold another session in the next fiscal year.

Number of Liquor Licenses	2002
Brewers' Agent	1,441
Club Licenses	374
Lounge	691
Restaurant	299
Tour Boat	7
Tourist Home	31
Transportation Services	10
Hotel/Motel	106
Restaurant Lounge	12
Distributor	41
Bonded Warehouse	6
Catering	151
Special Event	549
Recreational Facility	33
Military Mess	12
Airport Establishment	3
Institutional	4
Total	3,770

Auditors' Report

To the Board of Directors of
Newfoundland Liquor Corporation

We have audited the balance sheet of the Newfoundland Liquor Corporation as at March 31, 2002 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
August 19, 2002

NEWFOUNDLAND LIQUOR CORPORATION
Statement of Earnings
Year Ended March 31, 2002

	2002 $	2001 $
SALES	**108,454,825**	109,859,854
COST OF GOODS SOLD		
Inventory, beginning of the year	**22,377,427**	20,811,566
Purchases	**45,751,932**	46,021,945
Cost of goods available for sale	**68,129,359**	66,833,511
Less: Inventory, end of the year	**23,296,912**	22,377,427
	44,832,447	44,456,084
GROSS PROFIT	**63,622,378**	65,403,770
COMMISSION REVENUE ON SALE OF BEER	**46,692,613**	44,655,436
OTHER INCOME		
Commission on licensee purchases	**2,634,976**	2,699,173
Interest	**626,899**	970,609
Miscellaneous	**683,469**	660,554
	3,945,344	4,330,336
EARNINGS FROM OPERATIONS	**114,260,335**	114,389,542
ADMINISTRATIVE AND OPERATING EXPENSES (Schedule 1)	**21,142,552**	18,248,169
NET EARNINGS	**93,117,783**	96,141,373

NEWFOUNDLAND LIQUOR CORPORATION
Statement of Retained Earnings
Year Ended March 31, 2002

	2002	2001
	$	$
BALANCE, BEGINNING OF YEAR	**35,294,745**	29,153,372
NET EARNINGS	**93,117,783**	96,141,373
	128,412,528	125,294,745
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND AND LABRADOR	**91,000,000**	90,000,000
BALANCE, END OF YEAR	**37,412,528**	35,294,745

NEWFOUNDLAND LIQUOR CORPORATION

Balance Sheet

March 31, 2002

	2002	2001
ASSETS	$	$
CURRENT		
Cash	**14,309,395**	13,931,183
Accounts receivable	**3,219,556**	5,650,181
Beer commissions receivable	**4,256,090**	3,737,850
Inventories, at cost (Note 3)	**23,296,912**	22,377,427
Prepaid expenses	**554,603**	406,285
	45,636,556	46,102,926
CAPITAL ASSETS (Note 4)	**5,655,864**	4,585,996
LEASED ASSETS (Note 5)	**1,843,601**	308,342
INTANGIBLE ASSETS (Note 6)	**142,203**	162,402
	53,278,224	51,159,666
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**12,958,110**	13,162,287
Accrued vacation pay	**665,402**	519,319
Current portion of long term debt (Note 7)	**100,000**	100,000
	13,723,512	13,781,606
ACCRUED SEVERANCE PAY	**2,042,184**	1,883,315
LONG TERM DEBT (Note 7)	**100,000**	200,000
	15,865,696	15,864,921
EQUITY		
Retained earnings	**37,412,528**	35,294,745
	53,278,224	51,159,666

ON BEHALF OF THE BOARD:

PRESIDENT

CHAIRMAN OF THE BOARD

NEWFOUNDLAND LIQUOR CORPORATION
Statement of Cash Flows
Year ended March 31, 2002

	2002 $	2001 $
OPERATING ACTIVITIES		
Net earnings	**93,117,783**	96,141,373
Adjustments for:		
Amortization	**682,593**	505,359
Gain on disposal of capital assets	**(5,285)**	(242,027)
Accrual for vacation pay	**146,083**	110,832
Accrual for severance pay	**158,869**	165,589
Net change in non-cash operating working capital	**640,405**	(3,563,449)
	94,740,448	93,117,677
INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	**14,832**	255,389
Purchase of capital assets	**(3,277,068)**	(2,183,284)
	(3,262,236)	(1,927,895)
FINANCING ACTIVITIES		
Payments to the Province of Newfoundland and Labrador	**(91,000,000)**	(90,000,000)
Repayment of long term debt	**(100,000)**	(100,000)
	(91,100,000)	(90,100,000)
NET INCREASE IN CASH	**378,212**	1,089,782
CASH, BEGINNING OF YEAR	**13,931,183**	12,841,401
CASH, END OF YEAR	**14,309,395**	13,931,183

NEWFOUNDLAND LIQUOR CORPORATION
Notes to the Financial Statements
March 31, 2002

1. DESCRIPTION OF BUSINESS

The Newfoundland Liquor Corporation (the "Corporation") is a provincial crown corporation responsible for managing the importation, sale and distribution of beverage alcohol throughout Newfoundland and Labrador.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following accounting policies:

Inventories

Inventory is recorded at the lower of net realizable value or cost, which is measured at actual landed cost including freight and federal taxes.

Capital assets

Capital assets are recorded at cost. Amortization is recorded over the expected useful life of the asset on a straight line basis as follows:

Buildings	20 years
Store equipment and fixtures	5 years
Motor vehicles	3 years
Office furniture and equipment	5 years and 10 years
Plant and warehouse equipment	5 years

Leased assets

Leased assets are recorded at cost. Amortization is recorded over the terms of the leases on a straight line basis as follows:

Leasehold improvements	1 to 20 years
Leased land	30 years

During the year, the Corporation adopted a policy of amortizing leasehold improvements relating to head office over a period of 10 years. Previously, these improvements had been expensed as incurred due to their immateriality.

2. ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets consist of a trademark which is recorded at cost and amortized on a straight line basis over a ten-year period.

Severance pay

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. No provision for severance pay liability is made for employees who have less than nine years of continual service.

Financial instruments

The Corporation's financial instruments included in current assets and current liabilities approximate fair value due to their short term to maturity.

Use of estimates

The preparation of the Corporation's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INVENTORIES

	2002	2001
	$	$
Head office	**10,777,968**	7,811,409
Branch stores	**5,889,281**	6,348,721
Stock in transit	**3,227,531**	4,438,384
Raw materials	**1,259,271**	1,316,744
Finished goods	**2,124,447**	2,444,086
Work in progress	**18,414**	18,083
	23,296,912	22,377,427

4. CAPITAL ASSETS

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Land	**1,128,841**	**-**	**1,128,841**	1,128,840
Buildings	**6,960,170**	**3,797,004**	**3,163,166**	2,622,208
Store equipment and fixtures	**1,177,127**	**991,512**	**185,615**	150,579
Motor vehicles	**132,726**	**73,337**	**59,389**	37,965
Office furniture and equipment	**2,165,055**	**1,382,703**	**782,352**	373,936
Plant and warehouse equipment	**2,713,260**	**2,376,759**	**336,501**	272,468
	14,277,179	**8,621,315**	**5,655,864**	4,585,996

5. LEASED ASSETS

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Leasehold improvements	**6,059,854**	**4,289,869**	**1,769,985**	226,363
Leased land	**248,925**	**175,309**	**73,616**	81,979
	6,308,779	**4,465,178**	**1,843,601**	308,342

6. INTANGIBLE ASSETS

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Trademark	**202,800**	**60,597**	**142,203**	162,402

7. LONG TERM DEBT

	2002	2001
	$	$
11.35% debenture, issued to Brant Investments and held by National Trust Company Limited, repayable in annual principal installments of $100,000	**200,000**	300,000
Less: current portion	**100,000**	100,000
	100,000	200,000

These debentures are guaranteed unconditionally, as to principal and interest, by the Province of Newfoundland and Labrador.

8. LEASE COMMITMENTS

The Corporation has entered into rental leases covering retail outlets. Annual lease obligations for the next five years are as follows:

	$
2003	**1,014,668**
2004	**929,044**
2005	**672,489**
2006	**553,674**
2007	**387,191**
	3,557,066

9. RELATED PARTY TRANSACTIONS

The Corporation is leasing office and warehouse space in St. John's from the Department of Works, Services and Transportation. These leases are rent free; however, all operating and maintenance costs related to the buildings are the responsibility of the Corporation.

10. PENSIONS

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is $524,682 (2001 - $452,894).

SCHEDULE 1

NEWFOUNDLAND LIQUOR CORPORATION

Schedule of Administrative and Operating Expenses

Year ended March 31, 2002

	2002 $	2001 $
Salaries and employee benefits	**11,530,505**	9,747,102
Agency store commission and expense	**3,199,520**	3,626,345
Rent	**1,021,951**	943,790
Marketing	**765,615**	472,209
Amortization on capital assets	**502,108**	385,370
Interest and bank charges	**495,937**	482,691
Heat and light	**319,736**	247,294
Freight to stores	**299,072**	296,887
Travel	**298,897**	119,298
Professional fees	**292,389**	112,780
Repairs and maintenance	**269,668**	253,722
Stationery and office supplies	**236,010**	205,134
Miscellaneous	**196,563**	134,456
Staff training	**188,225**	169,157
Communications	**181,038**	132,289
Cleaning	**171,812**	153,422
Store supplies and wrapping	**169,331**	132,833
Municipal tax	**122,242**	124,834
Bad debt expense	**115,216**	6,886
Amortization on leased assets	**108,888**	40,613
Inventory breakage and shortage	**108,364**	123,000
Security	**107,313**	99,767
Consulting fees	**72,373**	72,074
Inventory storage charges	**64,683**	97,475
Postage	**60,218**	45,592
Directors' fees and expenses	**53,450**	43,545
Insurance	**52,602**	44,987
Dues and subscriptions	**42,084**	30,483
Interest on long term debt	**32,347**	44,676
Uniforms	**20,052**	30,156
Advertising	**18,325**	36,137
Motor vehicle expenses	**16,934**	14,685
Staff recruitment	**14,369**	20,507
Gain on disposal of capital assets	**(5,285)**	(242,027)
Total	**21,142,552**	18,248,169

Corporate Statistics

Sales and Income				
Sales	97,280,281	104,391,202	109,859,854	108,454,825
Gross Profit on Sales	57,843,091	62,183,840	65,403,770	63,622,378
Commission Revenue on Sale of Beer	41,739,902	43,959,460	44,655,436	46,692,613
Commission on Licensee Purchases	2,453,842	2,585,818	2,699,173	2,634,976
Other Income	1,304,089	1,425,857	1,631,163	1,310,368
Income from Operations	103,340,924	110,154,975	114,389,542	114,260,335
	1999	2000	2001	2002

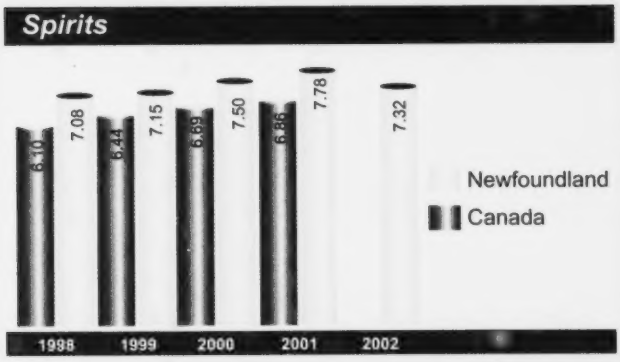
Product Sales Volumes (litres)				
Spirits	2,863,379	3,009,478	3,128,572	2,947,845
Wine	1,711,402	1,976,062	2,201,416	2,394,044
Beer	876,466	992,965	993,970	1,042,761
Specialty	108,337	104,791	96,139	136,889
Total	5,559,584	6,083,296	6,420,097	6,521,539
	1999	2000	2001	2002

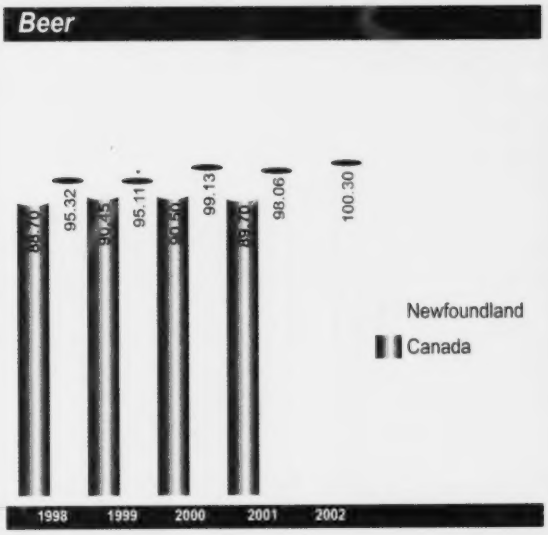
Wine Sales (litres)				
Fortified Wine	91,404	90,325	90,351	86,227
Crackling, Sparkling, Champagne	218,124	255,022	234,071	226,775
Table Wine	936,927	1,057,605	1,152,710	1,197,773
Flavoured Wine and Cider	464,947	573,110	724,284	883,269
Total Wine	1,711,402	1,976,062	2,201,416	2,394,044
	1999	2000	2001	2002

Spirits by Product Type (litres)				
Rum	1,428,080	1,513,210	1,583,118	1,475,836
Rye Whiskey	748,637	760,591	773,727	714,590
Scotch - other Whiskey	96,949	95,646	93,728	88,061
Gin	53,721	54,486	55,170	51,037
Vodka	281,482	306,281	324,789	308,205
Brandy	25,957	26,685	26,629	25,995
Cognac	2,463	2,601	2,553	2,323
Liqueurs	212,767	235,100	256,272	272,832
Miscellaneous	13,323	14,878	12,586	8,966
Total Spirits	2,863,379	3,009,478	3,128,572	2,947,845
	1999	2000	2001	2002

Beer Sales (litres)				
Local Beer (bottles)	347,540	356,609	353,689	422,245
Local Beer (cans)	79,699	84,007	80,810	78,873
Imported Beer	449,227	552,279	559,471	541,643
Total Beer	876,466	992,965	993,970	1,042,761
	1999	2000	2001	2002

Per Capita Consumption (litres)





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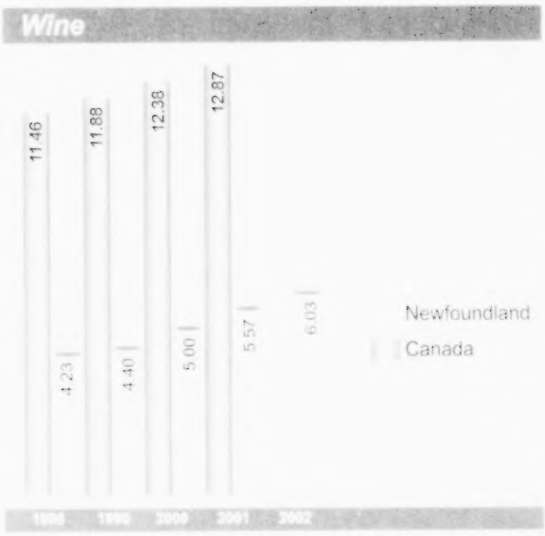

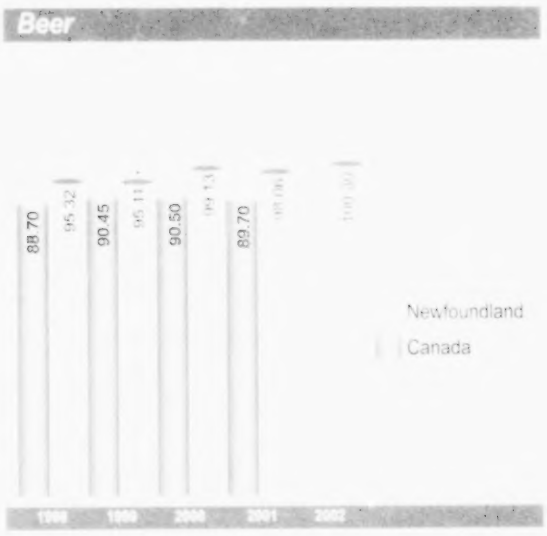

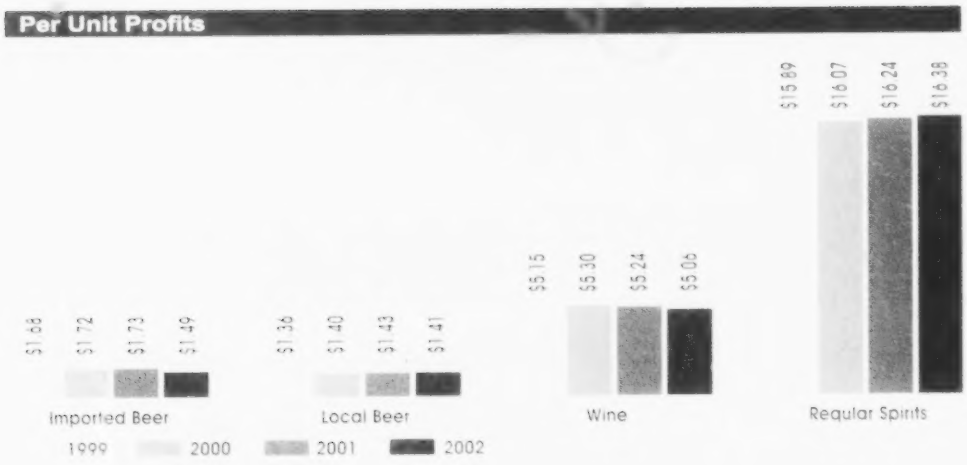

NLC Corporate Store Revenue

Location	Total Year Ending March 31/02
Elizabeth Avenue East, St. John's	$10,237,327.95
Murray Premises, St. John's	$4,170,944.25
Kenmount Road, St. John's	$2,651,863.99
Harbour Grace	$3,892,382.36
Churchill Square, St. John's	$2,495,747.23
Licensee Branch, St. John's	$2,436,005.43
Mount Pearl	$5,983,400.29
Placentia	$2,238,453.34
Topsail Road, St. John's	$6,482,982.69
Bay Roberts	$3,615,131.04
Agency Store Branch	$12,685,312.58
Avalon Mall, St. John's	$2,245,319.24
Village Mall, St. John's	$1,558,564.50
Wine Show, St. John's	$191,460.73
Sundry Sales	$2,224,621.05
Gander	$5,270,948.13
Grand Falls	$4,439,095.79
Clarenville	$8,818,254.57
Marystown	$3,372,710.62
Corner Brook Plaza	$2,462,331.95
Port aux Basques	$1,699,130.18
Stephenville	$3,121,529.67
Labrador City	$2,290,071.57
Deer Lake	$7,103,369.69
Corner Brook Millbrook	$4,406,601.66
Happy Valley	$2,361,264.37
Total Sales	$108,454,825